

# “Tax and your Retirement...”



## What's inside...

- |   |  |  |
|---|--|--|
| 2 Contribution types  | 5 How earnings in your super account are taxed | 6 How earnings in your pension account are taxed |
| 3 Contribution caps (or limits)                             | 5 Taking lump sum payments from your super     | 6 How your pension payments are taxed            |
| 4 How your super contributions are taxed                    | 6 Transferring from super to pension           | 7 What happens when you die?                     |
| 4 Obtaining tax rebates and other benefits on contributions |  | 8 About Asgard                                   |

# “Tax and your retirement...”

In the 2006/07 budget, the government made significant changes to superannuation rules. The goal was to simplify super, but the amount of tax you pay is still complex as it depends on many variables. This brochure provides you with an overview of how tax may affect your super or pension account and benefits that are paid to you.

The information in this brochure assumes that you are an Australian resident. If you are not an Australian resident for income tax purposes, different taxation rules may apply.

We strongly recommend that you consult your financial adviser or a suitably qualified professional regarding the tax consequences of any decisions you make.

## Contribution types

There are several different types of contributions that can be made to your super account. The two main categories of contribution are concessional and non-concessional. Generally, a concessional contribution is one where a tax deduction has been claimed by the person making the contribution and a non-concessional contribution is generally one where no deduction has been claimed by the person making the contribution.

The categorisation of contributions is important because of the tax consequences that apply if certain limits are exceeded – see ‘How your super contributions are taxed’ on page 4.

The following table lists the main concessional and non-concessional contributions. Taxation law excludes certain other contributions from being either concessional or non-concessional contributions. The main exclusions are listed following the table.

Concessional contributions	
<b>Superannuation guarantee (SG) contributions</b>	SG contributions are the compulsory 9% contributions that your employer is required to make on your behalf.
<b>Employer contribution</b>	Additional contributions made by your employer on your behalf over and above the required 9% SG contribution.
<b>Salary sacrifice contribution</b>	Employer contributions made on your behalf, in lieu of salary.
<b>Personal deducted contribution</b>	Contributions made by you for which an income tax deduction is available and claimed (see page 4).
<b>Directed termination payment</b>	The taxable amount above \$1 million from an employment termination payment (specified in an employment contract as at 9 May 2006) directed into your super account during the transition period (ending 30 June 2012).
Non-concessional contributions	
<b>Personal undeducted contribution</b>	Contributions made by you for which you haven't claimed a tax deduction.
<b>Spouse contribution</b>	Contributions made by your spouse into your super account for which your spouse is not entitled to a tax deduction.

Concessional contributions do not include:

- Up to \$1 million of directed termination payments specified in an employment contract as at 9 May 2006, provided the payment is made prior to 1 July 2012. The \$1 million is reduced by any earlier transitional termination payments that are received.
- The taxable component of an overseas transfer.

Non-concessional contributions do not include:

- The government co-contribution. See page 5 for more information.
- A contribution arising from a payment for personal injuries that result in permanent incapacity.
- Subject to a lifetime indexed limit of \$1 million – a contribution from the proceeds from the disposal of qualifying small business assets.
- The tax free component of an employment termination payment directed into your super account

### Contribution caps (or limits)

There are caps (limits) on the amount you can contribute to super that receives concessional tax treatment.

#### Concessional contributions cap

The amount of concessional (generally assessable) contributions that will benefit from the concessional tax treatment will be capped at \$50,000 per person per year (indexed).

If you are 50 years of age or over, a five year transitional arrangement will apply, enabling you to contribute \$100,000 per year (between 2007/08 and 2011/12). If you turn 50 during this time, you will be able to take advantage of these arrangements in the financial year in which you turn 50.

Any concessional contributions that exceed the cap will count towards your non-concessional contribution cap and will be subject to additional tax by the Australian Taxation Office (ATO) so you should carefully consider how the limits apply to you. See 'How your super contributions are taxed' on page 4 for further information.

#### Non-concessional contributions cap

A cap of \$150,000 a year (indexed) applies on the amount of non-concessional (generally undeducted) contributions a person can make. Excess concessional contributions will also be counted towards the cap on non-concessional contributions.

As a concession, to accommodate larger contributions, if you are under 65 years of age, you can bring forward up to two year's future entitlements to make non-concessional contributions of up to \$450,000 in one year. Any entitlement brought forward on this basis affects the amount you can contribute in the next 2 following years. If you are aged 63 or 64 and access the 3 year bring forward, you are not required to meet the work test under superannuation law (that you need to meet to be eligible to make a contribution to super) in the following 2 years, unless you make further contributions in those years.

#### Three year example

	Option 1	Option 2
Year 1	\$100,000	\$200,000
Year 2	\$100,000	\$100,000
Year 3	\$100,000	\$250,000
Year 4	\$0	\$0
Total	\$300,000	\$550,000
Excess	No	Yes by \$100,000

If you exceed the concessional and non-concessional caps detailed above, those contributions will be subject to additional tax, so you should carefully consider how the limits apply to you. See 'How your super contributions are taxed' on page 4 for further information.

#### Rejection of certain contributions

A super fund cannot accept contributions made by you or on your behalf (other than employer contributions) where you have not provided your tax file number (TFN) to the fund. A fund also cannot accept a single contribution that exceeds the non-concessional contributions cap.

#### No TFN

Super funds cannot accept any contributions made by you or on your behalf (including personal undeducted, personal deducted or spouse contributions, but excluding employer contributions) if your TFN has not been quoted. Under superannuation law, we are required to return these contributions to you within 30 days. If you supply your TFN within the 30 days, the contribution can be retained by the super fund.

#### Single contributions exceeding the non-concessional cap

Super funds cannot accept single one off contributions made by you or on your behalf (including personal undeducted and spouse contributions, but not including personal deducted and employer contributions) that exceed:

- three times the amount of the non-concessional contributions cap (i.e. currently \$450,000) – if you are 64 or less on 1 July of the financial year in which the contribution is made; or
- the amount of the non-concessional contributions cap (i.e. currently \$150,000) – if you are 65 but less than 75 on 1 July of the financial year in which the contribution is made.

Under superannuation law, these contributions must be returned to you within 30 days.

### Example 1

Sarah is 67 years of age and sends her super fund a cheque to contribute a personal undeducted contribution of \$200,000. The super fund will be unable to accept this contribution as Sarah is over 65 and the amount of the contribution exceeds the relevant cap which is \$150,000. The super fund is required to return the excess contribution within 30 days.

### Example 2

Sarah is 60 years of age and sends her fund a cheque to contribute a personal undeducted contribution of \$500,000. Because Sarah is under 65, the relevant limit is \$450,000. However as the contribution exceeds this cap, the super fund will be unable to accept the contribution and will be required to return the excess contribution within 30 days.

### How your super contributions are taxed

Subject to limits (see 'Contribution caps' on page 3), concessional contributions made to your super are taxed at 15% and no tax is payable on non-concessional contributions. Certain other contributions are also taxed at 15%, such as directed termination payments.

**Concessional contributions** that exceed the concessional contributions cap will be taxed at an additional 31.5%. If you receive contributions in excess of this cap, this tax will be imposed on you, but you will be able to withdraw from your super an amount equal to the tax liability. The ATO will forward you a 'Release authority' to authorise this payment. Alternatively, you can pay this tax from your own money. The tax must be paid within 21 days. You can direct the super fund to pay the funds to you or the ATO. You may want the funds to go to you direct, as you may have paid the ATO from your own funds to ensure the 21 day deadline was met.

### Non-concessional contributions

in excess of the non-concessional contributions cap will be taxed at 46.5%. If you receive non-concessional contributions in excess of the cap, this tax will be imposed on you, but you must withdraw an amount from your super equal to your tax liability. The ATO will also forward you a 'Release authority' to authorise this payment, which must be presented to the super fund and paid within 21 days, otherwise general interest is charged each day it's overdue. The super fund has 30 days to pay the funds.

### Example

Lynn is 50 and makes a concessional contribution of \$200,000. As Lynn is 50, a transitional concessional contributions cap of \$100,000 applies to her. However, as her contribution exceeds this cap, she will have to pay additional tax of 31.5% on the amount of her contribution over the cap –  $\$100,000 \times 31.5\% = \$31,500$ . This tax is payable from her own funds or can be paid from her super fund. The \$100,000 will also be counted towards her non-concessional contributions cap.

### Example

Mitchell is 67 and makes non-concessional contributions to various funds during the year totalling \$200,000. The relevant contribution cap based on his age is \$150,000. As this cap was exceeded by \$50,000, tax of 46.5% is payable on the amount of his contribution over the cap –  $\$50,000 \times 46.5\% = \$23,250$ . This tax is payable from his super fund. Mitchell can choose which fund(s).

### No-TFN tax

Where your TFN has not been quoted to your super fund, tax at 46.5% (the highest marginal rate, including Medicare Levy) is payable on:

- all contributions made by your employer (SG, salary sacrifice and employer contributions);
- personal deducted contributions; and
- the taxable component of directed termination payments.

This no-TFN tax will not apply to contributions where the super account commenced prior to 1 July 2007 and the total assessable contributions for the year did not exceed \$1,000.

Employers are required to supply the 'Tax file number declaration' for new employees to their super fund within 14 days, otherwise penalties apply to the employer.

### Claiming tax deductions on your super contributions

Some people may be eligible to claim a full deduction on personal superannuation contributions. They may also be eligible for income tax deductions if, during the financial year, 90% or more of their total assessable income, exempt income and reportable fringe benefits are derived from sources other than 'employers' including parties who are employers for SG purposes (and/or their associates).

### Obtaining tax rebates and other benefits on contributions

If you are not eligible to claim a tax deduction for a contribution to your super account, you may still be entitled to one of the following tax rebates or concessions. You should discuss with your financial adviser whether you qualify for any of the following:

### **Government co-contribution**

If you do not claim a tax deduction for your personal contribution, you may be eligible to receive up to \$1,500 as a 150% co-contribution to super from the government.

The amount of co-contribution available depends on your income and the amount of personal contributions you've made into super throughout the year. The maximum co-contribution for a financial year is \$1,500, based on making a personal contribution of \$1,000, and is available to you if your total income (including reportable fringe benefits) is \$28,980 or less in that financial year.

The co-contribution is reduced by 5 cents per dollar of income up to a total income of \$58,980 when it phases out completely.

### **Rebate for contributions made to your spouse's super account**

If your spouse earns less than \$13,800 each year and you make a spouse contribution to their super account, you may be eligible to claim a tax rebate of up to \$540 (maximum) on contributions of up to \$3,000 per annum.

The amount of the rebate allowable each year is reduced by 18c for every \$1 that your spouse's assessable income (plus reportable fringe benefits) exceeds \$10,800, reducing to zero at \$13,800.

### **Deductibility of our fees**

All fees and charges are treated as a tax deduction in your super account. Contribution charges are also tax deductible in your pension account. As the fund tax rate is a maximum 15%, this means that the net cost of investing through us is 85% of these fees.

For example, if you have agreed with your financial adviser to a 1% upfront fee for contributions to your account, the net ongoing fee charge after taking into account the benefit of tax deductions would be 0.85% (1% ongoing fee less a 15% tax deduction on that fee). These fees are not personally deductible to you.

### **How earnings in your super account are taxed**

Generally, any income earned in your super account is taxed at a maximum rate of 15%. For most people, this is much lower than the tax they would pay on investments outside super. Any tax on the earnings in your super account is payable by the fund and will be deducted from the value of your account for payment to the ATO.

### **Pooled Super Trusts (PSTs) and tax**

Some managed investments are PSTs. These are superannuation entities like super funds and they also pay tax on their earnings at a maximum rate of 15%.

Because PSTs pay tax on their own earnings (including capital gains), any increase or decrease in the value of your investment in a PST is not itself subject to any further tax in your super account and there is no tax payable on the sale of units in a PST.

### **Non tax-paid investments (NTPs) and tax**

Managed investments that are not PSTs and are not assessed for, and do not pay tax on their earnings (including capital gains), are known as non-tax paying entities (NTPs). Super funds that invest in them are required to pay tax at a maximum rate of 15% on any:

- taxable income distributed to them; and
- taxable capital gains distributed to them, or arising from redemptions.

Tax will be provided for in your super account on such distributions or capital gains (before offsetting losses) at the rate of 15%. If we subsequently establish that tax is payable on this income at a rate lower than 15%, or that you have a capital loss which can reduce capital gains tax, your super account will be adjusted. (Capital gains will generally be taxed at only 10% when the investment sold has been held for at least 12 months.) However, these adjustments are only made annually, when the fund lodges its annual income tax return or receives its tax refund (if applicable). This will usually occur in December for the financial year ended on the previous 30 June.

### **Franking credits**

You will receive the value of any franking credits on the investments in your super account with us that the fund is able to claim. These savings are credited to your account on an annual basis. If you close your super account with us before the end of a particular financial year, other than through a rollover to a pension account with us, you will not receive the benefit of any adjustment relating to that previous financial year.

### **Taking lump sum payments from your super**

When you take a lump sum payment from your super, you may have to pay tax. Any withdrawal is apportioned on a pro rata basis between the tax free and taxable components (see the following table) of the benefits in your super account. The amount of tax you pay also depends on your age.

## Super and pension components

All super and pension accounts comprise either tax free and/or taxable components.

Component	
<b>Tax free</b>	<p>The tax free component consists of a contribution and crystallised segment:</p> <p><b>Contribution segment</b> – comprises all non-concessional contributions (see page 2) made from 1 July 2007 and any tax free component rolled from other super funds</p> <p><b>Crystallised segment</b> – comprises undeducted contributions, the pre-July 1983, concessional, post-June 1994 invalidity and CGT exempt components frozen as at 30 June 2007.</p>
<b>Taxable</b>	<p>This is the total value of the superannuation benefit less the tax free component and broadly comprises:</p> <ul style="list-style-type: none"> <li>tax deductible contributions made to the super fund by you and/or by an employer on your behalf; and</li> <li>earnings on all contributions (for a pension account, the earnings are split proportionately between the tax free &amp; taxable components).</li> </ul> <p>For most people the taxable component is entirely made up of an element taxed in the fund, that is, a part that has been subject to tax at the time that contributions were made and upon earnings (any untaxed element that is rolled into the fund, is taxed at 15%, which then converts it to a taxed element)</p>

## Tax treatment of a super benefit payment

The taxation of a super or pension benefit differs depending on the components, whether the benefit is taken as a lump sum or pension and your age. This is detailed in the table below.

Age	Taken as a lump sum	Taken as a pension
<b>Below preservation age</b>	Taxable component is subject to 20% tax (plus Medicare levy).	Marginal tax rates and no tax offset.
<b>Preservation age to age 59</b>	<p>Taxable component is subject to 0% tax up to low rate cap of \$140,000 (indexed).</p> <p>Any amount above low rate cap is subject to 15% tax (plus Medicare levy).</p>	Marginal tax rates and 15% tax offset.
<b>Aged 60 and above</b>	Tax free	Tax free

## Partial withdrawals – proportioning

You cannot specify that a withdrawal is to be made completely from either the tax free or taxed components of your benefits. All withdrawals will be pro rated across both components.

## Transferring from super to pension

When you meet a condition of release (for example, turn 65) you can take your super as a lump sum, roll your super into a pension or annuity or a combination of these options.

Transferring eligible investments from a super account to a pension account, if permitted by your fund, will help:

- prevent you having to pay tax on any capital gains that would otherwise result from the sale of the investments and may reduce, defer or eliminate the amount of actual tax that you pay on your retirement funds;
- remove time out of the market; and
- reduce buy/sell costs associated with selling investments.

## How earnings in your pension account are taxed

Income (including capital gains) earned within your pension account is tax free. However, you will also receive the value of any franking credits on the investments in your account that

the fund is able to claim. These savings are credited to your account on an annual basis.

## How your pension payments are taxed

If you are under 60, the income tax rules treat your pension payments as income. The assessable amount of any payment is subject to income tax, and we will deduct tax instalments (PAYG tax) on your behalf. None of your pension payments are assessable for tax if you're 60 years or older. However, your income tax liability may be reduced as a consequence of:

- the tax free component of your pension – the calculation of which differs if your account commenced before or after 1 July 2007; and
- the 15% pension rebate, if applicable.

No pension payments received by you after you turn 60 are assessable for tax.

## Tax free component

For pension accounts that commenced on or after 1 July 2007, we calculated the taxable and tax free component, which are frozen at the commencement of the account. This also applies for pension accounts commencing before 1 July 2007, where a 'trigger' event has occurred:

- you turn 60 years of age;
- you make a full or partial withdrawal; or
- you die.

## Example

Steve is 55 and commences a pension account on 1 July 2007, using \$500,000 from his existing super account. His super benefit comprises:

- tax free component – \$200,000; and
- taxable component – \$300,000.

The tax free component at commencement of his pension account is 40% (\$200,000/\$500,000). If he draws a \$30,000 annual pension \$18,000 will be taxable (ignoring the 15% rebate).

Your completed 'Tax file number declaration' determines how much PAYG tax we are required to withhold and remit to the ATO.

### The deductible amount

Where your pension account commenced before 1 July 2007 and a trigger event has not occurred (see 'Tax free component' on previous page), the tax free component of your pension is calculated using a deductible amount. If you have converted any undeducted contributions, post-June 1994 invalidity components or CGT exempt components (together called the 'undeducted purchase price') into your pension account, you will have a 'deductible amount'. It is calculated by dividing the 'undeducted purchase price' of the pension by the 'relevant number' which is your life expectancy factor at your pension commencement date for an allocated pension, or the term of a term allocated pension.

$$\text{Deductible Amount} = \frac{\text{Undeducted purchase price}}{\text{Relevant number}}$$

You do not pay tax on the portion of annual pension payments relating to your deductible amount.

### Example

Melissa is 55 and commenced a pension account on 1 July 2006 using \$300,000 from her existing super account. Her super benefit comprises:

- Undeducted contribution – \$100,000
- Pre/Post 83 component – \$200,000

Her annual deductible amount is \$3,343.36 which is calculated as \$100,000 (undeducted purchase price)/29.91 (relevant number). Therefore if she draws an annual pension of \$20,000, \$16,656.64 will be taxable (ignoring the 15% rebate).

### The 15% annual tax rebate

You may be entitled to an annual tax rebate on part of your pension if you are:

- aged between 55 and 59 years of age;
- permanently disabled; or
- receiving a death benefit in the form of a reversionary pension.

The rebate is calculated as:

$$15\% \times (\text{annual pension payment less the deductible amount})$$

Using the example above Melissa's annual tax rebate is \$2,498.50

### What happens when you die?

When you die, the balance of your super/pension account (including any insured benefit) usually goes to the person(s) you have nominated as a beneficiary.

The taxation of death benefits depends on whether the benefit is paid:

- as a lump sum or pension;
- to a dependant or non-dependant for tax purposes
- if paid as pension, the age of the deceased and the recipient.

A 'death benefits dependant' for tax purposes is:

- your spouse or former spouse (including defacto spouse);
- your child or children under 18 years of age;
- any other person with whom you had an interdependency relationship; or
- any person who was a financial dependant.

### Taxation of death benefits

The tables below summarise the taxation arrangements that apply to the payment of a super death benefit.

### Super death benefits paid to a dependant

Age of deceased	Superannuation death benefit	Age of recipient	Taxation
Any age	Lump sum	Any age	Tax free
Aged 60 and above	Pension	Any age	Taxable component – element taxed in the fund is tax free
Below age 60	Pension	Above age 60	Taxable component – element taxed in the fund is tax free
		Below age 60	Taxable component – element taxed in the fund is subject to marginal tax rates and the person is entitled to a 15% tax offset upon this amount.

### Superannuation death benefits paid to a non-dependant

Age of deceased	Superannuation death benefit	Age of recipient	Taxation
Any age	Lump sum	Any age	Taxable component – element taxed in the fund is subject to 15% tax (plus Medicare levy). Untaxed element taxed at 30%.
Any age	Pension	Any age	Not applicable.
			Death benefit income streams that commenced prior to 1 July 2007 will be taxed as if received by a dependant.

## Why choose Asgard?

- **Great service.** Asgard is one of Australia's most awarded investment platforms, currently administering more than \$38 billion for over 400,000 investors.
- **Peace of mind.** Your money is in good hands – Asgard has over 18 years' experience in investment and super administration.
- **Solid backing.** Asgard is owned by St.George\*, one of Australia's largest and most respected service companies.
- **Make choices.** We have one of the largest investment menus in the industry, giving you access to over 330 of the best managed investments.
- **Have control.** Choose from a range of preset managed investment portfolios or build your own from managed investments and shares.
- **Save money.** You can save on transaction costs and paperwork by keeping your investments in one place.

\* Please note an investment in Asgard Super/Pension is not a deposit or liability with St.George. St.George does not guarantee your capital or the performance of your investment.

### Pension death benefit

A death benefit cannot be paid as a pension to:

- someone who is not a dependent;
- a child, unless the child is:
  - under 18 years of age; or
  - between 18 and 25 years of age and is financially dependant on you; or
  - over 18 and has a prescribed disability.

In addition, where the death benefit is paid as a pension to a dependant child, the child cannot continue to receive the pension once they attain age 25 (except where they have a prescribed disability) and it will be commuted and paid as a lump sum.

An exception to this rule is where a pension received by a child commenced before 1 July 2007. In this case, the pension can continue and will not have a cashing requirement when the child turns 25. This new rule also does not apply to a pension received by a non-dependant that commenced before 1 July 2007. In both cases, for tax purposes, they will be treated as if they were dependants.

### Refund of contributions tax through the anti-detriment provision

The aim of the anti-detriment provision under income tax legislation is to effectively refund any contributions tax paid (if applicable) by a super member whilst saving for their retirement.

This anti-detriment payment is made through an increased death benefit payment from the deceased's super fund.

The anti-detriment amount is smaller for pension members compared to super members. The reason for the difference is due to the pension rebate which effectively reduces tax on pension payments for eligible pensioners by 15% – which compensates pension members for contributions tax paid in the super phase.

Upon the death of a super or pension member, an anti-detriment payment is payable in respect of the following eligible tax dependants:

- spouse (married or de-facto, but not same sex couples)
- child of any age
- financial dependent.

Please note that the anti-detriment provision does not apply if the death benefit is paid as a pension.

For more information about the anti-detriment provision, please contact your financial adviser.

In this flyer, 'We', 'us' and 'our' is a reference to Asgard Capital Management Ltd ABN 92 009 279 592 AFSL 240695 RSE licence L0001946 (Asgard).

#### Important information

The general taxation information in this guide is based on our interpretation of the laws applying as at 1 July 2007. It is not the intention of Asgard that this publication be used as the primary source of readers' information but as an adjunct to their own resources and training. No representation is given, warranty made or responsibility taken as to the accuracy, timeliness or completeness of any information or recommendation contained in this publication and Asgard will not be liable to the reader in contract or tort (including for negligence) or otherwise for any loss or damage arising as a result of the reader relying on any such information or recommendation (except in so far as any statutory liability cannot be excluded). This publication has been prepared for general information and not having regard to any particular person's investment objectives, financial situation or needs. Accordingly, no recommendations (express or implied) or other information should be acted upon without obtaining specific advice from a financial adviser or similar professional.

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Cover photo: Vic heads up our insurance team within Distribution and Sales.